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C O N F I D E N T I A L STATE 202481

FOLLOWING REPEAT NEW DELHI 12190 ACTION SECSTATE

INFO BOMBAY CALCUTTA MADRAS 12 SEPTEMBER 1974.

QUOTE:

C O N F I D E N T I A L NEW DELHI 12190

E.O. 11652: GDS

TAGS: EAID, EGEN, IN

SUBJECT: THE SECRETARY'S VISIT: ECONOMIC ASPECTS

1. AS NEW DELHI'S 12189 SETS OUT, THE SECRETARY'S VISIT HERE HAD DEVELOPED A CONFUSION ALL OF ITS OWN, EVEN BEFORE A DEFINITE DATE FOR THE VISIT HAS BEEN ANNOUNCED. THE VIEWS OF THE PRIME MINISTER'S OFFICE AND THOSE BUREAUCRATS WHO MIGHT BE LABELLED "IDEALOGUES" AND WHO EMPHASIZE "POLITICAL UNDERSTANDINGS" IS IN RATHER SHARP CONTRAST TO THE REMAINDER OF THE BUREAUCRACY, MANY MINISTERS, THE BUSINESS COMMUNITY AND MUCH OF THE PRESS AND PUBLIC. THESE LATTER ELEMENTS, EACH APPROACHING THE VISIT FROM HIS OWN ANGLE, EXPECT A LARGE VARIETY OF BENEFITS FROM THE SECRETARY'S VISIT, SOME IN THE FORM OF FOOD OR AID, BUT MANY IN MORE INDIRECT FORMS SUCH AS INDO-US POLITICAL "BLESSING" TO INITIATIVES THAT WILL BE PURSUED IN THE PRIVATE SECTOR. THIS MESSAGE ATTEMPTS TO SET OUT SOME OF THESE ANTICIPATIONS, CONFIDENTIAL

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TO REVIEW THE PITFALLS AND ADVANTAGES OF EACH AND TO SUGGEST

HOW ONE COULD AVOID THE APPARENT CONFLICT BETWEEN THE "POLITICAL" AND "ECONOMIC" ASPECTS OF THE SECRETARY'S VISIT.

2. FOOD. NO OTHER SUBJECT IS AS IMPORTANT NOR DOES ANY EVOKE A MORE EMOTIONAL RESPONSE. THE OFFICIALS POSITION OF THE GOI REMAINS THAT IT WILL NOT HAVE A FULL ASSESSMENT OF THE FOOD POSITION (AND THE NEED FOR IMPORTED SUPPLIES) FOR ANOTHER TWO WEEKS. YET VIRTUALLY ALL PARTS OF THE GOI KNOW THAT INDIA NEEDS ADDITIONAL FOOD THIS YEAR AND THAT THE GOI IS SEEKING GRAIN FROM THE SOVIET UNION AND FROM US. THE HANG-UPS WITH RESPECT TO US ARE TWOFOLD: FIRST, THE GENERAL POLITICS BEFORE ECONOMICS THEME, AND, SECOND, THE LINGERING SENSITIVITY TO THE TERM "PL 480" (SEE NEW DELHI'S 11869 AND 11870). WHERE DOES THIS LEAVE US? AS WE SEE IT, IT MEANS THAT THE PRIME MINISTER IS UNLIKELY TO GO BEYOND A GENERAL EXPOSITION OF INDIA'S ECONOMIC DIFFICULTIES. NO "REQUEST" FOR ASSISTANCE WILL BE MADE.

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3. ALL WE HAVE LEARNED ABOUT OUR GOVERNMENT'S FOOD AID PLANS IS FROM A NEWS STORY OUT OF WASHINGTON IN WHICH THE SECRETARY OF STATE IS PORTRAYED AS SAYING TO THE SECRETARY OF AGRICULTURE THAT THE SECRETARY OF AGRICULTURE DOES NOT REALIZE HOW GREAT A WEAPON FOOD IS FOR THE SECRETARY OF STATE AND THE SECRETARY OF AGRICULTURE REPLIES THAT HE DOES. GIVEN OUR IGNORANCE LET US SIMPLY SAY THAT IF THERE IS ANY ACTUAL PROSPECT OF PROVIDING INDIA THE THREE MILLION TONS OF GRAIN IT HAS ASKED FOR THIS YEAR, OR THE FIVE MILLION NEXT YEAR, WE WOULD PROPOSE THAT WE NEGOTIATE ABOUT IT, WHICH IS TO SAY WE ASK THE INDIANS TO GIVE US SOMETHING IN RETURN, WHETHER IT BE POLITICAL, ECONOMIC OR WHATEVER. HOWEVER, IF THERE IS NO SUCH PROSPECT, IF ALL WE MEAN TO DO IS TO MAKE A MODEST DONATION, AND LEAVE THE INDIANS TO THE FATE WHICH THEY AND THE ARABS HAVE SHAPED, THEN WE NOW ARGUE THAT WE SHOULD GIVE WHAT WE ARE GOING TO GIVE QUIETLY, VOLUNTARILY, AND WITH NO FUSS. WE ALSO HOPE CONSIDERATION WILL BE GIVEN IN THE COMING WEEKS TO A LIMITED PROGRAM IN VEGETABLE OILS, TALLOW AND COTTON. ALL WOULD BE WELCOME AND IT IS PRECISELY BECAUSE THE LATTER COMMODITIES HAVE NOT BEEN THE SUBJECT OF MASSIVE PUBLIC SPECULATION THAT THE IMPACT OF PROGRAMS IN THIS AREA MIGHT BE LARGE COMPARED TO THEIR COMMERCIAL VALUE. WE WOULD BE HAPPY TO PROVIDE SPECIFICS IN A SEPARATE MESSAGE

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4. AID. LOGICALLY, THIS SHOULD BE AN EVEN MORE POLITICALLY SENSITIVE SUBJECT THAN FOOD YET IT IS NOT, PRIMARILY, IN OUR OPINION, BECAUSE THE GOI REALIZES THAT ANY RESUMED AID PROGRAM HERE WOULD BE SMALL. UNLIKE FOOD, MRS. GANDHI CONSIDERS SHE HAS ALREADY ASKED FOR THE RESUMPTION OF AID AND SHE IS UNWILLING TO PERMIT HER BUREAUCRACY TO MAKE SUCH A REQUEST MORE FORMAL. WE THINK THAT WE SHOULD ACCEPT HER POSITION BUT IN DOING SO

AVOID SOME OF THE IMPLICATIONS AND EXPECTATIONS THAT MIGHT BE LINKED TO AID. WE ARE NOT SEEKING A RETURN TO THE VAST OVERINVOLVEMENT IN ALL ASPECTS OF INDIAN ECONOMY THAT CHARACTERIZED OUR PRESENCE HERE IN THE 1960'S AND WE DO NOT WANT AN OPENEDED COMMITMENT THAT WILL ONLY BREED DISAPPOINTMENT AND RESENTMENT. ACCORDINGLY, WE SUGGEST A SINGLE SECTOR APPROACH GEARED TO FERTILIZER, THE INDIAN FERTILIZER INDUSTRY (WHICH OPERATES AT 60 PERCENT OF CAPACITY) AND RELATED INPUTS TO FOOD PRODUCTION SUCH AS ENERGY. WE DO NOT PROPOSE THE SECRETARY ANNOUNCE ANY DOLLAR FIGURE BUT RATHER THE BROAD NATURE OF THE APPROACH. IN FACT WE WOULD NOT EXPECT THAT IN FY 75 WE WOULD COMMIT MORE THAN SOMETHING IN THE NEIGHBORHOOD OF \$35 MILLION. ACCOMPANYING THIS COULD BE A TECHNICAL ASSISTANCE PROGRAM, LIMITED TO THE SAME AREAS AS THE GENERAL AID PROGRAM, WHICH WE BELIEVE COULD YIELD VALUABLE RESULTS.

5. TRADE. WE HAVE BEEN HIGHLY PLEASED, AND PERHAPS A LITTLE SURPRISED, BY THE POSITIVE GOI REACTION TO THE TRADE LINK DEALS WE HAVE PROPOSED. WE HOPE THAT IT WILL BE POSSIBLE TO ANNOUNCE AT LEAST ONE OF THESE DEALS AT THE TIME OF THE SECRETARY'S VISIT. THE ISSUE INVOLVED IS NOT THE DOLLAR VALUE OF THE DEALS THEMSELVES BUT THE WILLINGNESS OF THE US PRIVATE SECTOR TO AGREE TO NEW AND UNORTHODOX TRADING ARRANGEMENTS WHICH WILL YIELD BENEFITS TO BOTH ECONOMIES. IT ALSO UNDERLINES THE POTENTIAL FOR PRIVATE COOPERATION IN CONTRAST TO THE PRIMARILY GOVERNMENT TO GOVERNMENT RELATIONSHIP OF THE PAST.

6. INVESTMENT. FOREIGN INVESTMENT IS A DIRTY WORD IN INDIA AND IS LIKELY TO REMAIN SO EVEN IF THE GOI PERMITS IT IN PRACTICE. WE ARE STOUTHEARTED AND PERHAPS THICK HEADED OUT HERE AND WE EVEN NOTE THAT THE US WAS THE LARGEST SOURCE OF FOREIGN INVESTMENT AND TECHNICAL TIES UPS WITH INDIA IN THE FIRST SIX MONTHS OF 1974 (53 NEW TIESUPS WITH 13 OF THESE INVOLVING SOME EQUITY

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INVESTMENT). WE'RE NOT GOING TO GET A CHANGE IN POLICY HERE, EVEN IF WE OR THE INDIANS KNEW WHAT THE PRESENT POLICY WAS. WE'D LIKE TO GET A FCN TREATY AND MIGHT SEEK TO GET A NIBBLE ON THIS ALTHOUGH THE INDIANS HAVE BEEN RELUCTANT IN THE PAST. WE DO SEE MAJOR PROSPECTS FOR INDO-US COLLABORATION IN SUCH FIELDS AS COAL GASIFICATION AND PERHAPS WE COULD PERSUADE UNION CARBIDE AND THE GOI TO ANNOUNCE SOME FORM OF AGREEMENT IN THIS SECTOR DURING THE SECRETARY'S VISIT. WE ALSO SEE MAJOR PROSPECTS IN THE DEVELOPMENT OF INDIA'S VAST MINERAL RESERVES AND WE ARE FOCUSING ON THE KUDREMUKH IRON ORE PROJECT AS AN EXCELLENT WAY TO RECYCLE ABOUT \$1.2 BILLION IN IRANIAN FOREIGN EXCHANGE WITH US FIRMS TO OCCUPY MAJOR ROLES. IN SOME AREAS WE MAY NEED LITTLE MORE THAN A GENERAL STATEMENT THAT BOTH GOVERNMENTS WELCOME COLLABORATION IN SUCH SECTORS AS ENERGY, MINING, ETC.

7. JOINT RESEARCH AND TECHNOLOGICAL COOPERATION
SOMEHOW THIS ALWAYS GETS TO THE BOTTOM OF THE LIST YET IT
HAS GREAT POTENTIAL. WE'LL BE PREPARING AN INVENTORY OF PRESENT
JOINT RESEARCH PROJECTS AND HOPE THAT ALL USG AGENCIES WILL BE
USING THEIR INGENUITY TO DEVISE NEW ONES. WE WOULD SPECIALLY LIKE
TO SEE INTERIOR REVIEW ITS DECISION NOT TO SEEK RUPEE FUNDING
FOR SOME OF THE EXCELLENT PROJECTS THE INTERIOR TEAM DISCUSSED
HERE EARLIER THIS YEAR.

8. THE TACTICS OF ECONOMICS. WE HOPE THAT WE HAVE SUCCESSFULLY
PORTRAYED THE RANGE OF INDIAN EXPECTATIONS AND THE TYPE OF
SPECIFIC ACTIONS WHICH COULD BE LINKED TO OR FLOW OUT OF THE
SECRETARY'S VISIT. ALL ASSUME THAT THE NECESSARY POLITICAL
AMBIANCE IS PRESENT.

9. WE HOPE WE HAVE MADE IT CLEAR THAT LITTLE OF THIS NEED BE
DISCUSSED AT LENGTH DURING THE SECRETARY'S VISIT. YET FAILURE
TO HAVE SOME OR ALL OF THESE APPEAR SPONTANEOUSLY FROM THE VISIT
MAY DETERMINE WHETHER INDIA WILL SEE THE "NEW RELATIONSHIP" AS
REAL OR NOT.

10. THE TACTICAL DILEMMA WE SEE IS HOW TO MAKE A POLITICALLY
SUCCESSFUL VISIT APPEAR SUCCESSFUL TO THE BULK OF INDIANS WHO
EXPECTS SPECIFIC ECONOMIC RESULTS. WE CAN SEE NO BASIS FOR
DETAILED NEGOTIATIONS ON ANY ECONOMIC SUBJECT (OTHER THAN THE
JOINT COMMISSION) PRIOR TO OR DURING THE VISIT. HOWEVER, WE
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STILL BELIEVE THAT THE MOMENTUM REQUIRED FOR MAXIMUM RESULTS
IN BILATERAL RELATIONS WOULD BE FACILITATED BY BROAD ANNOUNCE-
MENTS AT THE CONCLUSION OF THE VISIT ON SUCH SUBJECTS AS FOOD
AND AID. ONLY TWO DOCUMENTS WOULD BE SIGNED - ONE ON THE JOINT
COMMISSION AND THE OTHER THE COMMUNIQUE. THE LATTER WOULD BE THE
VEHICLE FOR ANNOUNCING BROAD COOPERATIVE AGREEMENTS WITH IMPLEA-
MENTATION TO BE NEGOTIATED IN THE FOLLOWING MONTHS. MOYNIHAN

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